

# How Procurement and Finance Executives can create bottom line impact from Source to Pay

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Enterprises often focus too narrowly on cost savings and lose sight of critical measures like improving bottom line impact, reducing Total Cost of Ownership (TCO), improving customer satisfaction and achieving global cost competitiveness. The approach outlined in this paper focuses on achieving these outcomes by maximizing their Source to pay (S2P) function.

In the previous paper on Source to Pay, we noted that best-in-class sourcing and procurement organizations achieve performance levels that are – at a minimum – **2-5 times higher** than average organizations.

For a typical US\$5 billion company, that can mean a total spend reduction of US\$50-\$150 million and a margin increase of between 100 and 300 basis points in three years or less – statistics that no Chief Financial Officer (CFO) can afford to ignore.

It also emphasized the role and impact of ‘non-pricing’ levers like adherence to compliance, effective demand management and spend visibility, to elevate S2P organization performance.

This paper highlights how CPOs and CFOs can deliver bottom line impact by:

- Setting cost-savings and spend under management (SUM) objectives
- Managing the spend portfolio effectively
- Setting organizational and policy frameworks
- Partnering with third-party service to achieved desired results

## MANAGING 100% OF SPEND, 100% OF THE TIME

A first step for finance executives looking to achieve organization wide best in-class business results is to ensure that sourcing and procurement influences and impacts **100% of addressable spend, 100% of the time.**

According to industry research, enterprises have been able to achieve a 5% to 20% cost out savings for each new dollar of spend brought under management. This can result in millions or even tens of millions in cost savings that can be either reinvested or dropped to the bottom line.

### Spend under management (SUM) is when spend flows through:

- Procurement policies and procedures
- Procurement e-tools and applications
- Well-defined savings strategies
- When pricing levers and non-pricing levers for savings are clearly identified
- When sourcing, contracting and spend decision making are influenced by seasoned procurement professionals, deploying best-in-class S2P and supply management practices

AIM HIGH ON ENTERPRISE OBJECTIVES

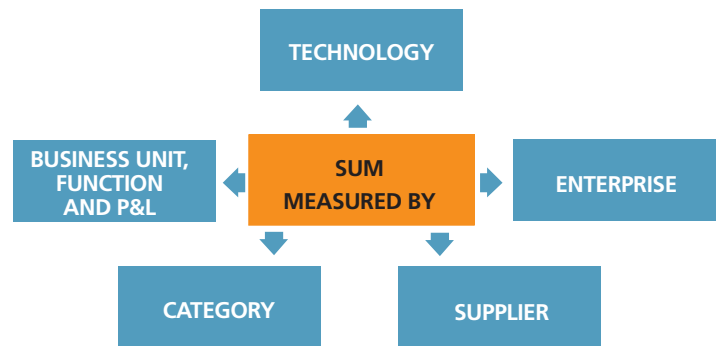
**Setting cost savings and SUM goals at an enterprise level brings in:**

- 30-40% greater addressable spend visibility
- 20-40% less maverick spending
- 5-10% reductions in working capital requirements
- Incremental ROI on existing Technology investments
- Lean processes
- Consistent process execution approaching Six Sigma performance

Organizations should adopt a holistic approach to Source to Pay. This helps set robust savings targets, timelines and strategies for increasing SUM by the procurement organization, business units and individual P&Ls and provides CFO organization visibility into:

- Which spend categories have been addressed and sourced successfully
- Best-in-class performance levels by spend categories
- Clear visibility into non-pricing levers for savings in the S2P processes
- Timelines and complexity associated with bringing various spend categories under management by a S2P organization
- Savings target and spend reduction to the executive boardroom
- The process of tying cost-savings objectives to top-line financial measures such as operating profit, earnings per share and working capital requirements.

A SPEND PORTFOLIO MANAGEMENT APPROACH TO SAVINGS AND SPEND REDUCTION



The spend portfolio is a critical methodology for enterprises, business units, P&L and source to pay leaders who are implementing S2P business transformations, robust savings targets and spend reduction initiatives. This methodology:

- Defines and details actual spend of the Business Units (BU), P&Ls and the overall enterprise
- Parses enterprise objectives for cost savings, SUM, and so forth, by business unit and P&L
- Explicitly links cost-savings targets directly to top-line corporate financial objectives such as operating profit, earnings per share and working capital requirements
- Details what, when, how and by whom cost savings will be pursued
- Forecast savings for the CFO by BU and P&Ls
- Helps define a suitable procurement technology roadmap for pricing and non pricing levers opportunities
- Defines how savings will be identified, validated, implemented, reported and distributed back to the P&L and BUs

**Organize and Govern for Best in Class S2P Performance**

In order to meet the cost saving and SUM objectives, it is essential to establish both organizational and policy frameworks that support true enterprise process integration. However, this strategy works very effectively where:

- A CPO or lead procurement executive reports directly to the CFO or up through the finance organization via the Chief Financial Officer (CFO)
- Spend Under Management and cost-savings are boardroom-agenda items
- An executive steering group meets regularly and frequently to manage performance to goals and to hold BU or P&L leaders directly accountable for managing to their spend portfolios and achieving realized savings

### SELF-FUNDING AND P&L POSITIVE SAVINGS INITIATIVES - A MUST

For finance and procurement executives looking to put their companies on a path to enhanced S2P performance, there are two possible routes. The first option is to invest in acquiring people and technology, integrating best practices, implementing performance metrics and establishing clear savings targets through a detailed spend analysis.

The alternative is to partner with a third-party service organization that is experienced in all of these areas and can begin delivering savings in the shortest possible time frame and increasing velocity. Many S2P

organizations do both, investing in their direct and indirect or core spend categories and leverage service providers as partners to manage indirect spend categories that are not core to their business success. **This approach will get an organization closer to managing 100% of the spend 100% of the time.**

Genpact's S2P Smart Enterprise Processes (SEP<sup>SM</sup>), is a disciplined methodology that can be adapted to deliver on any set of business objectives that a CFO/Source to Pay organization may set for itself. S2P SEP covers Source to Pay from a holistic, enterprise wide point of view with a focus on key business outcomes.

To learn more about Genpact's SEP<sup>SM</sup> methodology, please visit <http://genpact.com/home/our-services/SEP.aspx>

To read the first part of the thought-leadership paper at [www.genpact.com/sourcetopay](http://www.genpact.com/sourcetopay)

#### For more information

To know how Genpact can help you realize best in class Source to Pay performance, please write to

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**About Genpact**

Genpact is a global leader in business process and technology management, offering a broad portfolio of enterprise G&A and industry specific services, coupled with strong IT, analytics and reengineering capabilities.

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Genpact's Procurement and Supply Chain practice delivers end-to-end supply chain solutions, enabled by its deep domain experience, best-in-class technology and strategic partnerships. With over 3000 procurement and supply chain experts, Genpact has over 10 years experience in working with global companies to provide services that include Forecasting and Planning, Sourcing and Procurement, Fulfillment and Logistics and After Market Services. Genpact has been continually recognized as a top rated service provider and was ranked for the third consecutive year as the Top Procurement Outsourcing Vendor by the 2009 Black Book of Outsourcing.